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As I See

THE LENGTH OF THE REAL ESTATE CYCLE

ALL of our subscribers are more or less familiar with the superimposed idealized cycle which we have used on the long real estate activity charts published by our organization during the past 20 years. This cycle as we have charted it and as shown on the top chart on the following pages, is a regular curve of a fixed length, swinging up in eight years and down in 10 - 18 years from peak to peak and 18 years from valley to valley. The shape of the curve and its length was decided upon many years ago as the shape and length which would best fit the actual booms and depressions we had had in real estate activity over the entire history of the United States. It was not, however, the exact length of the average real estate cycle. If all of the cycles which we have experienced are averaged mathematically, the length would be 18-1/3 years.

We have referred quite constantly in our reports to the 18-1/3 year real estate cycle and other books quoting from us as long ago as 1947 have also referred to the 18-1/3 year cycle of real estate activity as charted in our reports. (See, for example, pages 116 and 117 of Cycles, by Dewey and Dakin, published first in March 1947. See also my "As I See The Real Estate Activity Cycle," dated June 25, 1947, in which I said: "The real estate cycle as measured by our organization has averaged 18-1/3 years in the United States.")

During the past two years real estate activity has continued upward in spite of the fact that our idealized cycle passed the normal line on the way down in the middle of 1947 and is now 45% below the computed normal, while real estate activity is 32.7% above normal.

There have been times in the past when the idealized cycle moved in one direction while the actual activity cycle moved in an opposite direction, but these periods have never been so long continued nor so extreme as the divergence which has developed in the recent past. This has, naturally, raised two questions:

1. Is the idealized cycle as we have drawn it on our charts the best one which could be drawn, particularly in view of the fact that mathematically it does not average out to the same length as the mathematical average of the actual cycles?

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COMPARISON OF THE R

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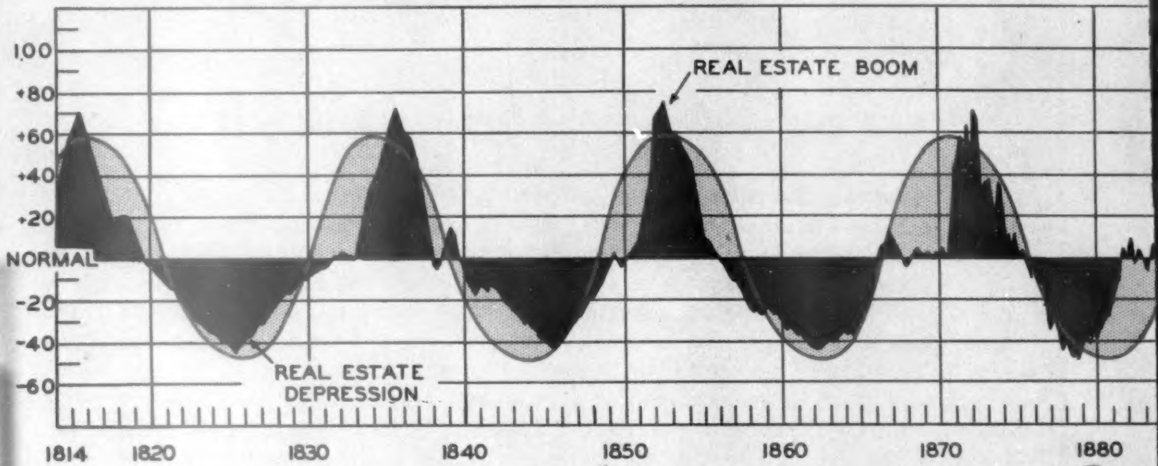
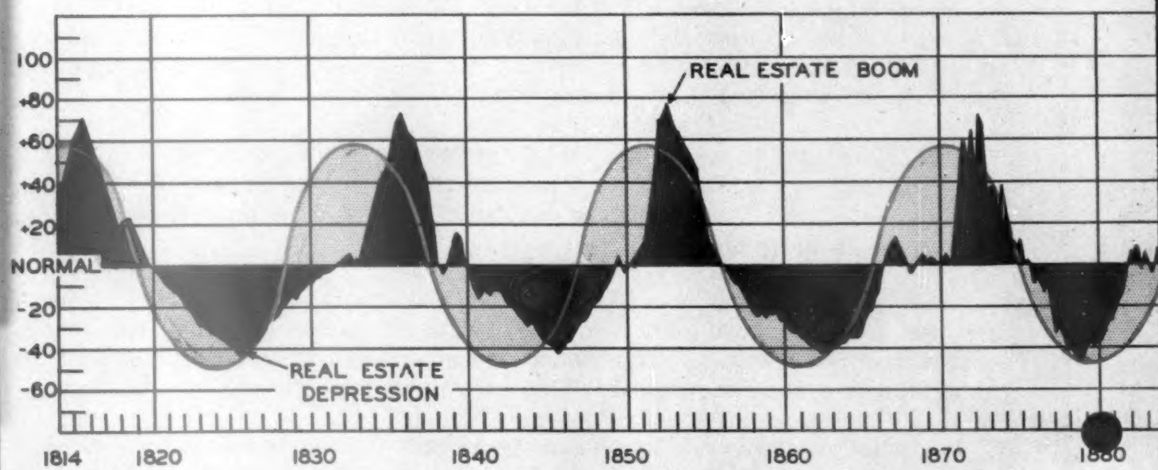
18 YEAR IDEALIZED CYCLE

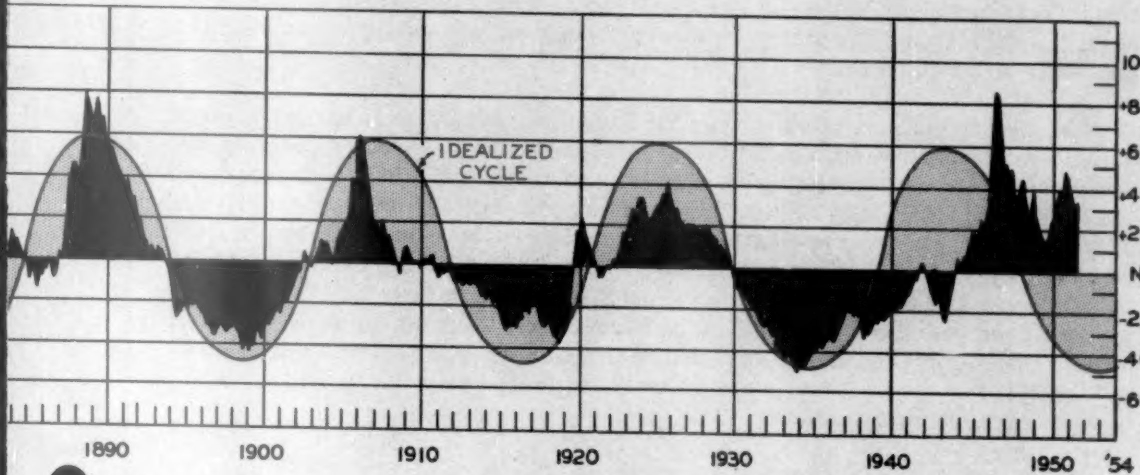


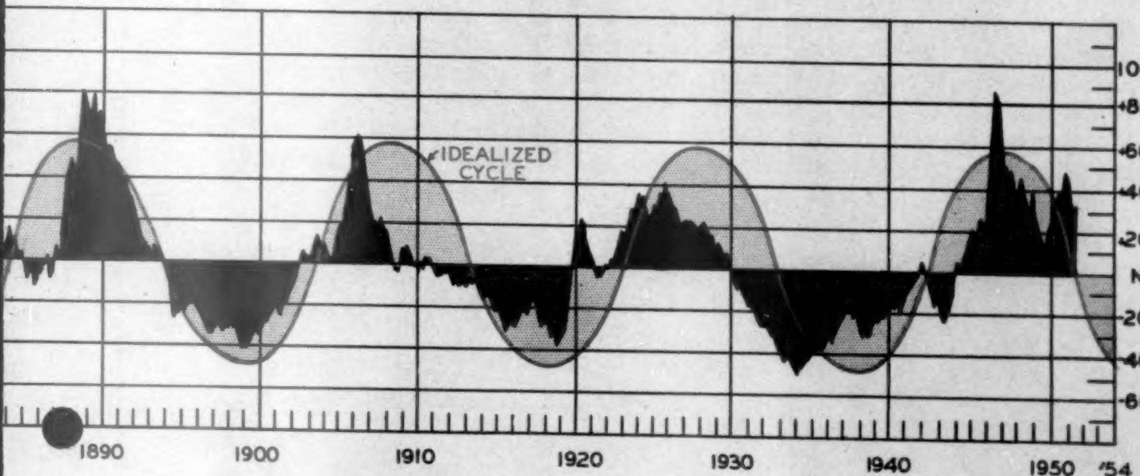
18⅓ YEAR IDEALIZED CYCLE



EAL ESTATE CYCLES

ZL K & CO. ~ 1951





(cont. from page 343)

2. Is the recent wide divergence of the actual and the idealized cycle an indication of the fact that the many government controls of our so-called planned economy are destroying the cycle by changing many of the demand and supply relationships which are primarily responsible for these swings in real estate?

The answer to these questions is all-important to the owners of real estate. If the cycle has been destroyed, we could then expect the current boom to continue indefinitely and the policy which real estate owners would follow would be geared to this hypothesis.

Let me say quite frankly that only the future can give the final answer to these questions. In my own thinking, I believe that the so-called planned economy has modified slightly the present cycle, but I do not think that it has destroyed it. I think depressions will still follow booms and booms will still follow depressions. After considerable experimentation with idealized cycles varying in length from 17 to 19 years, I am convinced that an 18-1/3 year idealized cycle will fit the actual booms and depressions we have had slightly better than the 18-year cycle we have used previously, and a drawing of this cycle is shown on the lower chart of the center spread of this report. All charts on real estate activity published by this company in the next few years will use the 18-1/3 year cycle in place of the 18-year cycle formerly shown.

The lengthening of our idealized cycle by one-third of a year has a strong cumulative effect in a period as long as the period under discussion. Every three cycles will move the position of the idealized cycle by one full year.

Undoubtedly the 18-1/3 year cycle gives us a better fit during the boom we have just come through than did the cycle on the 18-year basis. On the other hand, the fit during the boom of the early 1900's is not quite so good on the 18-1/3 year cycle, nor is the fit for the boom in the 1830's. I am not certain that our revision of the idealized cycle is going to fit the shrinkage of real estate activity which I feel is ahead of us some time in the not too distant future. I am inclined to believe, however, that a conservative investor would be more apt to win if he placed his bets on the assumption that the cycle has not been destroyed.

ROY WENZLICK